

The Kroger Co. *Annual Report*

1952



L R B M

SELF SERVICE MEATS

ASTS • QUALITY PORK-VEAL-LAMB • FRESH TRAY PACKED POULTRY • FROZEN SEA FOODS • ASK FOR SPECIAL CUTS NOT ON DISPLAY FRESH FRUITS AND VEGETA



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President's Letter

The Kroger Co. earned \$12,110,087 in 1952, equal to \$3.30 per share. In 1951, operating income was \$9,112,940 and \$2.48 respectively and total earnings, including a non-recurring profit on the sale of real estate, were \$12,657,940.

The company will pay federal income and excess profits taxes of \$15,825,300, equal to \$4.31 per share, or more than double our dividend payments to stockholders. \$5,542,876 of the company's income was subject to the excess profits tax of 82%.

Sales were \$1,051,849,935, passing the billion dollar mark for the first time. Sales increased 5.5% over 1951. Price levels during 1952 were generally comparable to the prior year.

Operating costs continued to rise as they have for the past several years. Wages and salaries totalled \$115,066,548, an increase of \$7,801,201 or 7.3%. Fixed costs including rent, amortization, depreciation and interest on borrowed capital rose \$4,146,398, or 16.6%. Higher sales and better merchandising have enabled the company to more than cover these increased operating costs.

Food was in abundant supply during most of 1952. Competition has driven the prices of a great number of important food items below OPS ceilings. Nevertheless controls still exist and their administration is costly both to Kroger and to the taxpayer.

The trend towards larger and better equipped food stores continues. Self-service meat departments, air conditioning, a broad line of frozen food products, and a generally expanded line of food items are features of our newer stores. The average store which we will open in 1953 will have a third more selling area and more than twice the parking area of stores opened as recently as 1951.

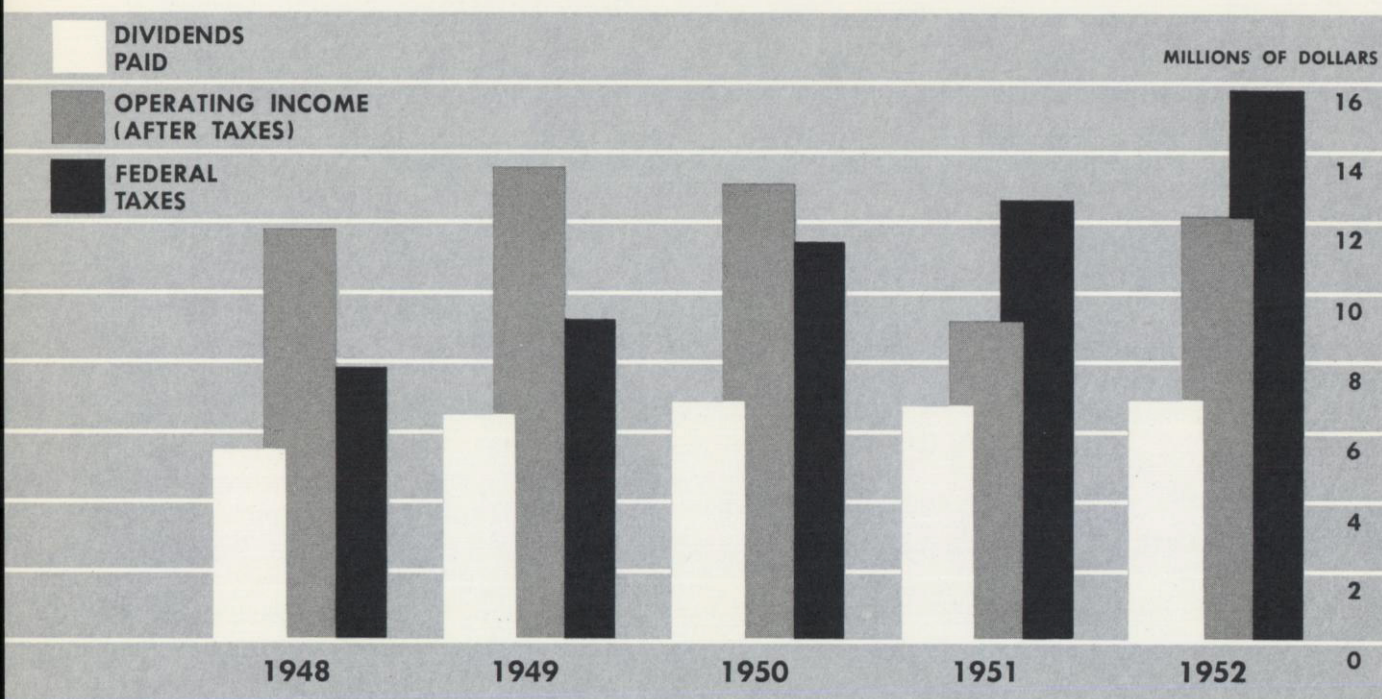
Of significance to all retailers is the current trend to large suburban shopping centers. The

accessibility and popularity of these centers permit establishment of high volume food stores. Such stores offer greater merchandising opportunities and more efficient operation.

Another important development is the trend to longer store hours. We meet such competition only where necessary, because we do not believe the longer hours to be fully productive.

Our aggregate net worth at the year-end was \$99,216,265 as compared to \$68,564,962 five years ago. The reinvestment of a portion of each year's earnings continues to be needed to maintain our position in the areas in which we operate.

Our cash balance at the year-end was \$40,078,625, the highest on record. During the first half of 1953, \$13,086,435 of our 1952 federal taxes will be payable. It is essential that we maintain a strong year-end cash position to provide for these needs. Inventories on December 27, 1952, were \$77,143,349, a reduction of \$2,027,408 from last year. Net working capital was \$65,884,745, an improvement of \$4,355,895 over a year ago.



Kroger opened 132 new, remodeled and relocated stores in 1952. Capital expenditures for stores were \$7,324,426. In 1953, we plan to continue our program of consolidating smaller stores into larger units. We are also going forward with the enlargement and modernization of our warehouse facilities. The new dry grocery warehouse for our Cincinnati Branch was occupied early in 1952. We are presently constructing a produce and grocery warehouse for our Charleston, West Virginia, branch. Capital expenditures for warehouses and warehouse equipment in 1952 were \$531,791. Capital expenditures for all purposes were \$10,227,038. Depreciation and amortization were \$9,037,885.

The warehouse which we occupied under lease in Wichita, Kansas, was destroyed by fire in October, 1952. We are temporarily servicing our Wichita Branch stores out of our Kansas City warehouse.

The Kroger Company Charitable Trust was established in 1952, with three vice-presidents of the company as trustees. The trust property will be used for charitable, educational and scientific purposes. \$700,000 of the company's 1952 before-tax earnings were contributed to this trust. Since this amount would have been subject to excess profits tax, the cost to shareholders of the company's contribution to the charitable trust was less than four cents per share.

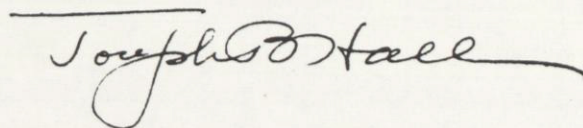
The Manufacturers & Merchants Indemnity Company, two-thirds of whose common stock and all of whose preferred stock is owned by Kroger, had a decrease in surplus of \$482,067 in 1952. Increased severity of losses required substantial increases in loss reserves for claims arising in 1952 and in prior years. The company is in sound financial condition and should have a profitable operation in 1953. Mr. Henry Ernst, formerly with the Fire Association of Philadelphia, has been elected Executive Vice-President succeeding Edward J. Stoddard, resigned.

As mentioned in the semi-annual report, the Federal Trade Commission issued a complaint against the company charging that it had been knowingly receiving certain price discriminations and asking that the company be ordered to discontinue such practices. In our opinion, the Government charges are without foundation and they are being vigorously resisted. The company has filed an answer to the complaint which generally denied its allegations and raised certain affirmative defenses. The matter is still pending before the Federal Trade Commission.

The management believes that the improved earnings of 1952 can be attributed in part to the added incentive to employees provided by the Kroger Employees' Savings and Profit Sharing Plan. The company contribution of before-tax profits to the Savings and Profit Sharing Fund for 1952 was \$1,715,043. Fund assets at December 27, 1952, totalled \$5,745,454 of which \$3,318,465 came from employees' savings and the remainder from company contributions since establishment of the plan at mid-year 1951. Ninety-five percent of eligible employees are members of the Plan.

The good results of 1952 are due to the splendid cooperation of the Kroger team in controlling expenses and improving profits through proper merchandising emphasis. 1953 should be a year of adequate supplies of all foodstuffs with prices determined by competitive conditions rather than government controls. Wages are expected to increase further, adding to the cost of doing business. The year will further test our organization. We have confidence in their ability to produce satisfactory results.

Respectfully submitted,

A handwritten signature in dark ink, reading "Joseph B. Hall". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

February 6, 1953

President

One of the original stores opened by B. H. Kroger in 1882

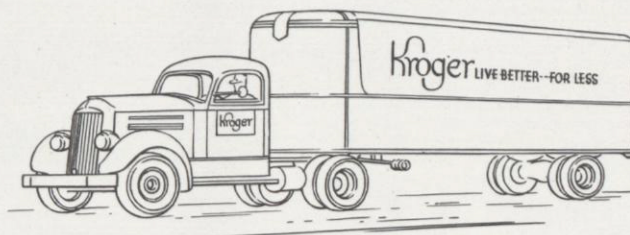


A Kroger store in the early '30s

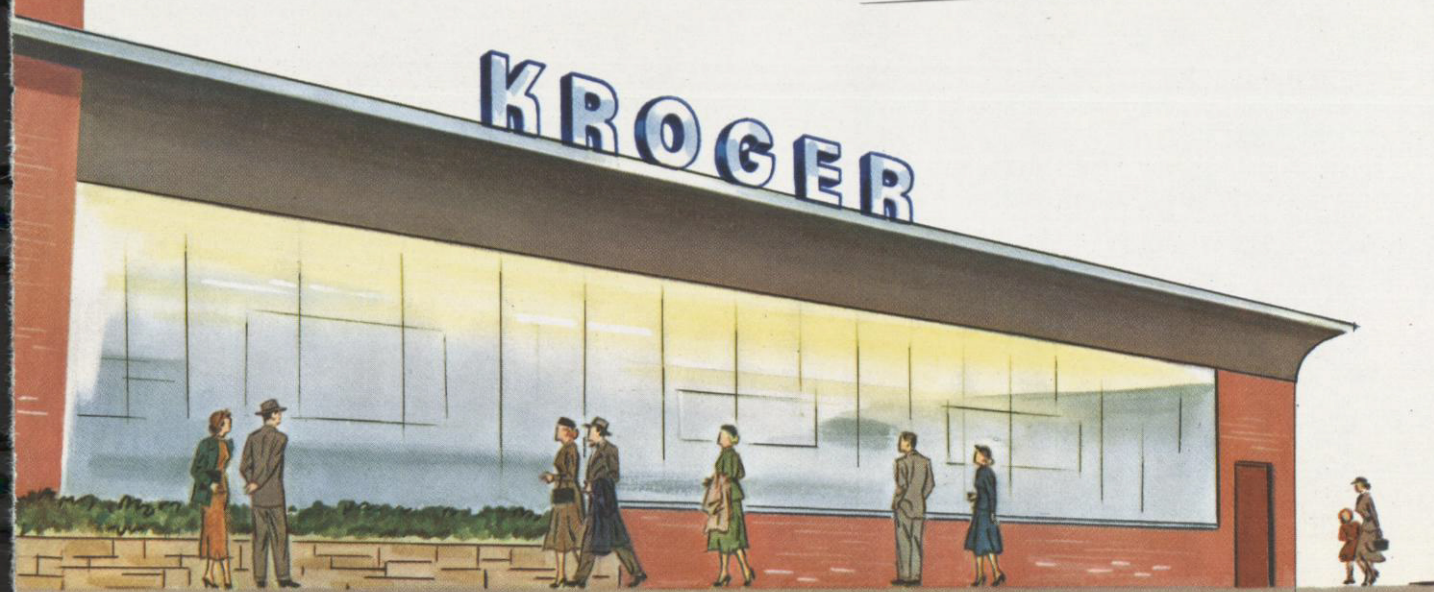


One of the 78 modern food department stores

opened by Kroger in 1952



KROGER



The Kro
Consolidated Balance

ASSETS

Cash.....		\$ 40,078,625
Receivables.....		3,901,984
Inventories of merchandise (Note 1).....		77,143,349
Store and general supplies.....		3,261,276
Prepaid insurance, rent and taxes.....		<u>1,130,113</u>
TOTAL CURRENT ASSETS.....		125,515,347
Investment in subsidiary insurance company at cost (Note 2).....		1,776,361
Land, at cost or less.....	\$ 2,145,879	
Buildings, at cost or less.....	\$12,971,376	
Machinery and equipment, at cost.....	<u>66,215,605</u>	
	79,186,981	
Less allowance for depreciation.....	<u>33,489,043</u>	<u>45,697,938</u>
TOTAL FIXED ASSETS.....		<u>47,843,817</u>
TOTAL ASSETS.....		\$175,135,525

ger Co.

Sheet—December 27, 1952

LIABILITIES

Accounts payable.....	\$ 24,984,297
Accrued expenses.....	14,818,690
Provision for federal taxes, current and prior years.....	<u>19,827,615</u>
TOTAL CURRENT LIABILITIES.....	59,630,602

Long-term notes (Note 3).....	14,000,000
Employees' benefit fund.....	2,288,658

CAPITAL

Preferred capital stock, par \$100:		
First preferred, 6%, 279 shares outstanding.....	\$27,900	
Second preferred, 7%, 150 shares outstanding.....	<u>15,000</u>	\$ 42,900
Common capital stock, without par value (Note 4):		
Authorized 5,000,000 shares		
Outstanding 3,673,178 shares.....	33,671,735	
Accumulated earnings (Note 3).....	<u>65,501,630</u>	<u>99,216,265</u>
TOTAL LIABILITIES & CAPITAL.....		\$175,135,525

Consolidated Statement of Income

Years Ended December 27, 1952 and December 29, 1951

	1952	1951
Sales	\$1,051,849,935	\$ 997,086,223
Cost of sales.....	885,662,283	847,062,115
Operating and general expenses.....	138,494,590	128,313,568
Total.....	1,024,156,873	975,375,683
Income before Federal taxes on income.....	27,693,062	21,710,540
Federal taxes on income.....	15,825,300	12,597,600
Net operating income.....	11,867,762	9,112,940
Profit from sale of real estate.....	242,325	3,545,000
Total net income.....	\$ 12,110,087	\$ 12,657,940

Consolidated Statement of Accumulated Earnings

Year Ended December 27, 1952

Accumulated earnings—December 29, 1951.....	\$60,373,344
Total net income for 1952.....	\$12,110,087
Dividends declared in 1952.....	6,981,801
Accumulated earnings—December 27, 1952.....	\$65,501,630

Notes to Financial Statements

1. Inventories of merchandise are valued in part on the LIFO basis and in part at the lower of cost or market.
2. The investment in Manufacturers and Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire preferred stock and 66 $\frac{2}{3}$ % of the common capital stock of that company, and is carried on the books at cost. At December 27, 1952, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,321,612. Total assets of the insurance company, so determined amounted to \$6,698,271 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$6,111,090. Operations of the insurance company for the year 1952 resulted in a loss of \$461,400. A dividend of 2 $\frac{1}{2}$ % (\$26,250) was paid on the preferred stock of the insurance company in 1952.
3. Notes bearing interest at 3.1% mature October 1, 1971. Annual prepayments of \$700,000, without premium, are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 27, 1952, plus \$23,406,600 of accumulated earnings existing on that date.
4. Options granted to 323 officers and executives for the purchase of 147,500 shares of Kroger common stock were in force at December 27, 1952. The option price of 146,300 shares was \$32.25. Option prices of the balance of 1,200 shares range from \$33.25 to \$36.00. No options were exercisable at December 27, 1952.

Report of Certified Public Accountants

To The Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary company as of December 27, 1952, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary company at December 27, 1952, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

Cincinnati, Ohio
February 6, 1953

Financial and Operating Statistics

	1952	1951	1950	1949	1948
SALES.....	\$1,051,849,935	\$997,086,223	\$861,242,642	\$807,739,440	\$825,668,323
NET INCOME.....	\$ 12,110,087	\$ 12,657,940	\$ 13,087,542	\$ 13,636,564	\$ 11,811,120
NET INCOME PER SHARE.....	\$3.30	\$3.45	\$3.56	\$3.71	\$3.21
DIVIDENDS PER SHARE.....	\$1.90	\$1.85	\$1.875	\$1.75	\$1.50
NUMBER OF SHAREHOLDERS.....	26,088	26,254	26,144	27,041	27,436
NUMBER OF STORES.....	1,891	1,978	2,054	2,190	2,349
NUMBER OF EMPLOYEES.....	28,396	26,864	25,775	26,161	24,969
CASH.....	\$ 40,078,625	\$ 30,128,288	\$ 25,869,452	\$ 20,300,337	\$ 19,745,290
MERCHANDISE INVENTORIES.....	77,143,349	79,170,757	72,223,385	64,380,938	63,956,574
NET WORKING CAPITAL.....	65,884,745	61,528,850	49,918,283	51,406,979	50,295,776
ACCUMULATED EARNINGS.....	\$ 65,501,630	\$ 60,373,344	\$ 54,513,661	\$ 48,316,510	\$ 41,110,925
NET WORTH.....	99,216,265	94,090,179	88,230,496	82,033,545	74,828,460
NET WORTH PER SHARE.....	\$27.00	\$25.60	\$24.01	\$22.32	\$20.36

Live Better For Less

